

*Audit Report*  
**Cedars International  
Academy**  
Austin, Texas  
**FOR THE PERIOD ENDED  
AUGUST 31, 2002**

John R. Pechacek, CPA  
Bellville, Texas

**CEDARS INTERNATIONAL ACADEMY**  
Austin, Texas

**AUDIT FOR THE PERIOD ENDED AUGUST 31, 2002**

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CERTIFICATE OF BOARD

Cedars International Academy  
Name of Charter School

Travis  
County

227-817  
Co. -Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named charter school were reviewed and (check one)  approved  disapproved for the period ended August 31, 2002, at a meeting of the board of directors of such school district on the 20 day of Feb., 2003.

  
Signature of Board Secretary

  
Signature of Board President

If the board of directors disapproved of the auditor's report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

***John R. Pechacek***

***Certified Public Accountant***

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

**Independent Auditor's Report**

Unqualified Opinion on Financial Statements

Board of Directors  
Cedars International Academy  
Austin, Texas

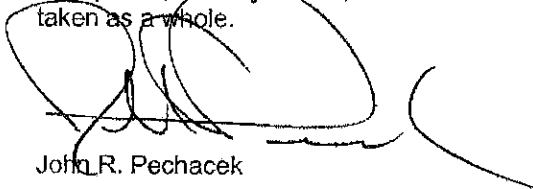
I have audited the statement of financial position of Cedars International Academy as of August 31, 2002 and the related statements of activities and functional expenses, and cash flows for the period then ended. These financial statements are the responsibility of the Academy's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for our opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cedars International Academy as of August 31, 2002, and the changes in its net assets, and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 28, 2003, on my consideration of Cedars International Academy's internal control structure over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Cedars International Academy taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



John R. Pechacek

January 28, 2003

**FINANCIAL STATEMENTS**

**CEDARS INTERNATIONAL ACADEMY**  
**STATEMENT OF FINANCIAL POSITION**  
 August 31, 2002

**ASSETS**

## Current Assets-

Cash on Hand and In Banks  
 Due from Texas Education Agency  
 Accounts Receivable  
 Total Current Assets  
 Equipment Net of Accumulated Depreciation

2002

	83,385
	51,228
	134,614
	176,281
	<u>310,895</u>

Total Assets

**LIABILITIES AND NET ASSETS**

Accounts Payable  
 Payroll Deductions Payable  
 Accrued Salaries Payable  
 Due to State  
 Deferred Revenue  
 Notes Payable

	464
	-
	4,482
	19,080
	5,000

Total Liabilities

29,026

## Net Assets-

Unrestricted (Deficiency)  
 Temporarily Restricted (Deficiency)

281,869

Total Net Assets

281,869

Total Liabilities and Net Assets

\$ 310,895

(The accompanying notes are an integral part of this financial statement.)

**CEDARS INTERNATIONAL ACADEMY**  
**STATEMENT OF ACTIVITIES**  
 Period Ended August 31, 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>REVENUE AND OTHER SUPPORT</b>			
Support-			
Contributions	\$ -	\$ -	\$ -
Start Up Grant	-	423,830	423,830
State Program Revenues	350,381	-	350,381
Federal Program Revenues		1,082	1,082
Fees and Other Revenue-			
Earnings from Temporary Investments	-	-	
Other Revenues from Local Sources	18,029	-	18,029
Net Assets Released from Restrictions	424,912	(424,912)	
Total Revenue and Other Support	<u>793,322</u>	<u>-</u>	<u>793,322</u>
<b>EXPENSES AND OTHER LOSSES</b>			
Program Services-			
General School Operations	195,649	-	195,649
ESEA Title II Part B	114	-	114
ESEA Title VI Innov Ed Prog	191	-	191
Food Service Fund	4,426	-	4,426
ESEA Title VI Class Size Reduction	777	-	777
Accelerated Reading Instruction	6,714	-	6,714
Technology Allotment	1,352	-	1,352
Start Up Grant	197,331	-	197,331
Support Services-			
Administrative and General	49,449	-	49,449
Start Up Grant	55,450	-	55,450
Total Expenses	<u>511,453</u>	<u>-</u>	<u>511,453</u>
Change in Net Assets	281,869	-	281,869
Net Assets (Deficiency), Beginning of Year	-	-	-
Net Assets (Deficiency), End of Year	<u>\$ 281,869</u>	<u>\$ -</u>	<u>\$ 281,869</u>

(The accompanying notes are an integral part of this financial statement.)

**CEDARS INTERNATIONAL ACADEMY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
 Period Ended August 31, 2002

	Program			
	General School Operations	ESEA Title II Part B	ESEA Title VI Inn Ed Prog	Food Service
<b>EXPENSES</b>				
Payroll Costs-				
Professional Personnel	\$ 102,370	\$ -	\$ -	\$ -
Support Personnel	2,850	-	-	1,833
Employee Benefits	17,413	-	-	197
Total Payroll Costs	122,632	-	-	2,030
Professional & Contracted Services-				
Professional Services	18,065	114	191	-
ESC Services	3,465	-	-	-
Repair and Maintenance	7,560	-	-	-
Utilities	14,289	-	-	-
Rentals/Operating Leases	7,554	-	-	-
Misc. Contracted Services	-	-	-	-
Total Prof. & Cont. Services	50,934	114	191	-
Supplies and Materials-				
Operating Supplies	691	-	-	-
Textbooks and Other Read. Mat.	-	-	-	-
Testing Materials	-	-	-	-
Food Service	-	-	-	2,354
General	19,235	-	-	-
Total Supplies and Materials	19,925	-	-	2,354
Other Operating Costs-				
Travel, Subsistence and Stipends	-	-	-	-
Insurance and Bonding	1,052	-	-	-
Miscellaneous Operating Costs	-	-	-	-
Total Other Operating Costs	1,052	-	-	-
Total Expenses Before Deprec.	194,543	114	191	4,384
Depreciation Expense	1,106	-	-	42
Total Expense	\$ 195,649	\$ 114	\$ 191	\$ 4,426

(The accompanying notes are an integral part of this financial statement.)



Services				
ESEA Title VI Class Size	Accelerated Reading	Technology Allotment	Start Up Grant	Total Program Services
\$ -	\$ 2,088	\$ -	\$ 84,438	\$ 188,896
-	-	-	4,636	9,319
-	-	-	243	17,852
-	2,088	-	89,317	216,067
777	-	-	27,889	47,036
-	-	-	-	3,465
-	1,160	-	-	8,720
-	-	1,352	4,081	19,722
-	-	-	-	7,554
-	-	-	-	-
777	1,160	1,352	31,969	86,497
-	-	-	4,538	5,229
-	-	-	-	-
-	-	-	-	-
-	-	-	-	2,354
-	3,466	-	71,506	94,207
-	3,466	-	76,045	101,790
-	-	-	-	-
-	-	-	-	1,052
-	-	-	-	-
-	-	-	-	1,052
777	6,714	1,352	197,331	405,406
-	-	-	-	1,148
<u>\$ 777</u>	<u>\$ 6,714</u>	<u>\$ 1,352</u>	<u>\$ 197,331</u>	<u>\$ 406,554</u>

**CEDARS INTERNATIONAL ACADEMY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
 Period Ended August 31, 2002

Page 2 of 2

EXPENSES	Support Services General and Administrative			Total All Funds
	General School Operations	Start Up Grant	Total Support Services	
Payroll Costs-				
Professional Personnel	\$ 14,666	\$ 29,000	\$ 43,667	\$ 232,563
Support Personnel	23,801	4,000	27,801	37,120
Employee Benefits	4,554	53	4,607	22,460
Total Payroll Costs	43,021	33,054	76,075	292,142
Professional & Contracted Services-				
Professional Services	2,544	8,850	11,394	58,430
Tuition	-	-	-	3,465
Repair and Maintenance	-	-	-	8,720
Utilities	-	-	-	19,722
Rentals/Operating Leases	-	-	-	7,554
Misc. Contracted Services	-	-	-	-
Total Prof. & Cont. Services	2,544	8,850	11,394	97,891
Supplies and Materials-				
Operating Supplies	-	-	-	5,229
Textbooks and Other Read. Mat.	-	-	-	-
Testing Materials	-	-	-	-
Food Service	-	-	-	2,354
General	2,701	13,547	16,248	110,455
Total Supplies and Materials	2,701	13,547	16,248	118,038
Other Operating Costs-				
Travel, Subsistence and Stipends	-	-	-	-
Insurance and Bonding	-	-	-	1,052
Miscellaneous Operating Costs	1,183	-	1,183	1,183
Total Other Operating Costs	1,183	-	1,183	2,235
Total Expenses Before Deprec.	49,449	55,450	104,899	510,305
Depreciation Expense	-	-	-	1,148
Total Expense	\$ 49,449	\$ 55,450	\$ 104,899	\$ 511,453

**CEDARS INTERNATIONAL ACADEMY****STATEMENT OF CASH FLOWS**

Period Ended August 31, 2002

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>2002</u>
Cash Received from Contributions	\$ -
Cash Received from Government Grants	407,582
Cash Received from State Program Funds	321,399
Cash Received from Interest earnings	-
Cash Received from Miscellaneous Sources	18,029
Cash Paid to Suppliers for Goods and Services	(217,700)
Cash Paid to Employees for Services	<u>(273,497)</u>
Net Cash Provided by Operating Activities	255,813
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Fixed Assets	<u>(177,429)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Loan Received	<u>5,000</u>
Net Increase in Cash and Cash Equivalents	83,385
Cash and Cash Equivalents at Beginning of Year	
Cash and Cash Equivalents at End of Year	<u><u>\$ 83,385</u></u>

**RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Change in Net Assets	\$ 281,869
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	1,148
Adjustment to Prior Year Net Assets	
(Increase) Decrease in Net Assets-	
Due from Texas Education Agency	(51,228)
Accounts Receivable	-
Increase (Decrease) in Operating Liabilities-	
Accounts Payable	464
Payroll Taxes Payable	-
Payroll Benefits Payable	-
Accrued Salaries Payable	4,482
Deferred Revenue	19,078
Notes Payable	-
Net Cash Provided by Operating Activities	<u><u>\$ 255,813</u></u>

(The accompanying notes are an integral part of this financial statement.)

**CEDARS INTERNATIONAL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
*Fiscal Period Ended August 31, 2002*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities -

Cedars International Academy provides general education services for students in grades K-6. The Academy operates under an open enrollment charter granted by the Texas State Board of Education. This charter was issued for a period of five years and is subject to review and renewal prior to the expiration date of the original charter. The Academy is part of the public school system of the State of Texas and is therefore entitled to distribution from the State's available school fund. The Academy does not have the authority to impose ad valorem taxes or to charge tuition.

The Academy was incorporated in May, 2000 and has been recognized as an organization exempt from federal income taxes under Section 501 (C)(3) of the Internal revenue Code.

B. Accounting Policies -

The financial statements have been prepared on the accrual basis of accounting. The accounting system is organized under the *Special Supplement to Financial Accounting and reporting - Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

To insure observance of limitations and restrictions placed on the use of resources available to the Academy, the accounts are maintained in accordance with the principles of fund accounting during the year. Resources for various purposes are classified into funds according to their nature and purposes. Separate accounts are maintained for each fund; however, the accompanying statements of financial position and of activities focus on the organization as a whole and reports the amounts of its total assets, liabilities, net assets and changes in net assets in accordance with Financial Accounting Standards Board Statement No. 117.

The statement of financial position reports the amounts of each of two classes of net assets: temporarily restricted, and unrestricted net assets.

- \* Temporarily restricted net assets result from contributions and other inflows of assets that are limited by donor imposed stipulations that can be fulfilled and removed by actions of the Academy pursuant to those stipulations.

When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- \* Unrestricted net assets are the remaining part of the Academy's net assets that is neither permanently restricted nor temporarily restricted by donor imposed stipulations. Property and equipment are included in unrestricted net assets.

C. Cash and Cash Equivalents -

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks.

**CEDARS INTERNATIONAL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
*Fiscal Period Ended August 31, 2002*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fixed Assets and Depreciation -

All assets acquired with a value of \$5,000 or greater are recorded as fixed assets and are valued at cost or estimated cost. Donated assets are reported at the fair market value at the time of acquisition. Depreciation of building improvements and equipment is provided over the estimated useful lives of the assets on a straight line basis.

E. Revenues -

Revenues from the State of Texas available school fund are earned based on reported attendance.

Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

\* Contributions with donor imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets.

\* Contributions without donor imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Government grant contracts that are entered into by the Academy are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

F. Donated Goods and Services -

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statements as in kind contributions and expenses of a like amount.

G. Personal Leave -

All employees earn five days of paid personal leave per year. However, unused balances do not accumulate; therefore, there is no liability accrued on the financial statements.

H. Estimates -

In preparation of the financial statements and in conformity with generally accepted accounting principles, management's estimates were considered for propriety and appropriateness.

**CEDARS INTERNATIONAL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
*Fiscal Period Ended August 31, 2002*

**2. FIXED ASSETS**

An analysis of fixed assets at August 31, 2002, is presented as follows:

Asset	Cost	Accumulated Depreciation	Net	Straight Line Depr. Rate
Portable Buildings	\$ 164,049	\$ 375	\$ 163,674	5%
Furniture	6,380	731	5,649	12%
Equipment	7,000	42	6,958	7%
Total	\$ 177,429	\$ 1,148	\$ 176,281	

Depreciation expense for the year ended August 31, 2002 was \$1,147.71.

**3. OWNERSHIP IN FIXED ASSETS**

As of August 31, 2002, the following disclosure of ownership interests in fixed assets is provided to address certain requirements discussed in House Bill 6, 77th Legislature (2001).

	Date Acquired	Ownership Interest		
		Local	State	Federal
Buildings	(1)	\$ --	\$ --	\$ 164,049
Furniture and Equipment	(1)	--	6,380	7,000
Total Fixed Assets		\$ --	\$ 6,380	\$ 171,049

There was \$177,429 in additions to fixed assets after September 1, 2001.

**Notes to Ownership of Fixed Assets**

(1) The date of acquisition could not be disclosed without reporting the list of fixed assets in its entirety.

**4. EMPLOYEE RETIREMENT AND PENSION PLAN**

***Plan Description***

Cedars International Academy contributes to the Teacher retirement System of Texas (TRS), a cost-sharing, multiple employer, defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and the Texas Government Code, Title 8, Subtitle C. TRS also administers Proportional Retirement benefits and service credit transfer under the Texas Government Code, Title 8, Chapters 803 and 805 respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS internet website - [www.trs.state.tx.us](http://www.trs.state.tx.us) - under the TRS Publications heading.

**CEDARS INTERNATIONAL ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
*Fiscal Period Ended August 31, 2002*

***Funding Policy***

For fiscal year 2002, State law provides for a State contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting entity (school district, charter school, college, university, or state agency) is required to make all or a portion of the State's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following funding policy: (1) The State constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a State contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. State contributions to TRS made on behalf of Cedars International Academy's employees for the period ended August 31, 2002 were \$210,878.31. Cedars International Academy did not pay any portion of the State's required contribution since salaries did not exceed the statutory minimum.

5. HEALTH CARE COVERAGE

During the year ended August 31, 2002, employees of the Academy were covered by a health insurance plan. The Academy paid premiums up to \$60 per month per employee (depending upon coverages selected) to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

6. LOANS PAYABLE

During the year ending August 31, 2002, the Academy had outstanding one loan secured for the purpose of providing operating capital. The details of these loans are as follows:

	Name of Payee	Amount of Loan	Interest Rate	Due Date	Balance Due as of 08/31/02
1)	Our Lady's Maronite Parish	\$ 5,000	None	*	\$ 5,000
	Total	\$ 5,000			\$ 5,000

Future debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2002-2003	\$ 5,000	\$ --	\$ 5,000
2003-2004	--	--	--
2004-2005	--	--	--
2005-2006	--	--	--
2006-2007	--	--	--
	\$ 5,000	\$ --	\$ 5,000

\* - The note is payable upon demand.

7. DUE FROM STATE

At August 31, 2002, the Academy had earned the following revenues which were not received until after September 1, 2002:

State Foundation Entitlements for the 2002-2002 Academic Year	\$ 33,898
Start Up Grants	17,330
Total Due From State	\$ 51,228

**Fiscal Period Ended August 31, 2002**  
**NOTES TO FINANCIAL STATEMENTS**  
*Fiscal Period Ended August 31, 2002*

**8. TEMPORARILY RESTRICTED NET ASSETS**

At August 31, 2002, the balance in Temporarily Restricted Net Assets was \$0.

**9. OPERATING LEASES**

As of August 31, 2002, the Academy was in negotiations with Our Lady's Maronite Catholic Parish to extend their lease.

**10. COMMITMENTS AND CONTINGENCIES**

The Academy receives funds through state and federal programs which are governed by various rules and regulations of the grantor agency. State Foundation program entitlements are based on student enrollment and attendance as reported to the Texas Education Agency by the Academy. These student enrollment and attendance reports are subject to audit by the Texas Education Agency and amounts paid to the Academy may be adjusted according to the results of any such TEA audit. Expenses charged to the grant programs are subject to audit and adjustment by the grantor agency. In the opinion of management, there are no contingent liabilities relating to enrollment and attendance reports as filed or relative to compliance with the rules and regulations governing grant expenditures; therefore, no provision has been made in the accompanying financial statements for such contingencies.

**11. STATE FOUNDATION PROGRAM REVENUE**

Charter schools in the State of Texas participate in the State Foundation Program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period and, at the close of the year, actual attendance is calculated by the Texas Education Agency and the amount of State Foundation Program earnings is calculated. The enrollment and attendance reports are subject to audit by the Texas Education Agency and final State Foundation Program earnings may be adjusted as a result of any such audit. During the year ended August 31, 2002, the Academy was paid a total of \$313,297 of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

Teachers of the Academy worked a total of 10 days in August, 2002. Based upon the estimated State Foundation Program revenue for 2002-2003 as provided by the Texas Education Agency, the Academy earned \$33,898 State Foundation Program revenue for these days of work and instruction. This revenue has been accrued at August 31, 2002, and will be received after September 1, 2002.

**12. ACCRUED SALARIES**

During August, 2002, the Academy's teachers worked 10 days for which they were not paid until after September 1, 2002. Based upon the daily rate of pay and the number of days worked, the Academy has accrued \$4,481 to be paid after September 1, 2002.

**13. WORKERS COMPENSATION**

During the fiscal period ending August 31, 2002, the Academy did not participate in a worker's compensation plan with a carrier.



***John R. Pechacek***

***Certified Public Accountant***

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**Independent Auditor's Report**

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors  
Cedars International Academy  
Austin, Texas

I have audited the general purpose financial statements of Cedars International Academy as of and for the period ended August 31, 2002, and have issued my report thereon dated January 28, 2003. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

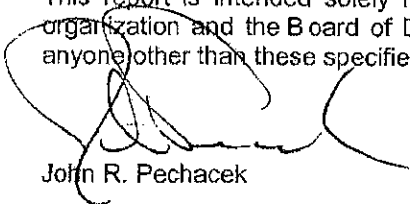
Compliance

As part of obtaining reasonable assurance about whether Cedars International Academy's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Cedars International Academy's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



John R. Pechacek

January 28, 2003

***John R. Pechacek******Certified Public Accountant***

P.O. Box 549 • Bellville, Texas 77418-0549 • 979.865.3169 • Fax 979.865.9829

**Independent Auditor's Report****Report on Compliance with Requirements Applicable  
To Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133**Board of Directors  
Cedars International Academy  
Austin, Texas***Compliance***

I have audited the compliance of Cedars International Academy with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the period ended August 31, 2002. Cedars International Academy's major federal programs are identified in the Summary of Auditor's Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cedars International Academy's management. My responsibility is to express an opinion on Cedars International Academy's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cedars International Academy's compliance with those requirements and performing other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Cedars International Academy's compliance with those requirements.

In my opinion, Cedars International Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the period ended August 31, 2002. Accordingly, there are no instances of non compliance listed on the accompanying Schedule of Findings and Question Costs.

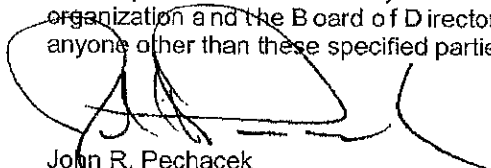
***Internal Control over Compliance***

The management of Cedars International Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Cedars International Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report on Compliance with Requirements Applicable  
To Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133  
Page 2 of 2

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A *material weakness* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.



John R. Pechacek

January 28, 2003

**CEDARS INTERNATIONAL ACADEMY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Fiscal Period Ended August 31, 2002

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?        Yes   X   None Reported

Noncompliance material to financial statements noted?        Yes   X   No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered to be material weaknesses?        Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?        Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.282A	Public Charter School Start Up Grant

Dollar threshold used to distinguish between type A and type B programs: \$   300,000  

Auditee qualified as low-risk auditee?   X   Yes        No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

**CEDARS INTERNATIONAL ACADEMY**  
**SCHEDULE OF EXPENSES OF FEDERAL AWARDS**  
 Period Ended August 31, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenses
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed Through State Department of Education:			
ESEA Title II - Dwight D. Eisenhower Professional Development Program	84.281 A	227-817	\$ 114
Public Charter School Start Up Grant	84.282 A	227-817	423,830
ESEA Title VI - Innovative Education Program Strategies	84.298 A	227-817	191
ESEA Title VI - Class Size Reduction	84.340 A	227-817	<u>777</u>
Total Passed Through State Department of Education			<u>424,912</u>
Total U.S. Department of Education			<u>424,912</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 424,912</u></b>

(The accompanying notes are an integral part of this financial statement.)

**CEDARS INTERNATIONAL ACADEMY**  
**NOTES TO THE SCHEDULE OF EXPENSES OF FEDERAL AWARDS**  
Fiscal Period Ended August 31, 2002

Basis of Presentation

The accompanying Schedule of Expenses of Federal Awards includes the federal grant activity of Cedars International Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.